



REPLY TO DES MOINES OFFICE

April 17, 2008

Marlene H. Dortch, Secretary
Federal Communications Commission
445 12th Street, S.W.
Washington, DC 20554

Re: Comments of the Iowa Telecommunications Association
WC Docket No. 05-337, CC Docket No. 96-45
Recommended Decision NPRM, FCC 08-22

Submitted on behalf of the Iowa Telecommunications Association in the above-referenced docket are the attached comments filed in response to the Commission's *Identical Support NPRM, FCC 08-4* and *Reverse Auctions NPRM, FCC 08-5*. If you have any questions regarding these comments, please communicate directly with the undersigned.

Respectfully submitted,

DAVIS, BROWN, KOEHN, SHORS & ROBERTS, P.C.

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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of)	
)	
High-Cost Universal Service Support)	WC Docket No. 05-337
)	
Federal-State Joint Board on Universal Service)	CC Docket No. 96-45
)	

COMMENTS
OF
THE IOWA TELECOMMUNICATIONS ASSOCIATION

I. INTRODUCTION

The Iowa Telecommunications Association (ITA)¹ hereby submits these comments in response to the Commission's Notice of Proposed Rulemaking (NPRM)² in the above-captioned proceeding. The NPRM seeks comment on the Commission's rules governing the amount of high-cost universal service support provided to competitive eligible telecommunications carriers (ETCs). Among other items, the Commission seeks comment on the advantages of using reverse auctions to determine the amount of high-cost universal service support provided to ETCs serving rural, insular and high-cost areas. With respect to rural service areas currently

¹ ITA is the nation's largest and second oldest state telecommunications association. It includes within its membership 141 Iowa incumbent local exchange carriers (ILECs), six (6) competitive local exchange carriers (CLECs) and Iowa's statewide centralized equal access provider, Iowa Network Services, Inc. The members of ITA serve rural exchanges throughout the State of Iowa. The median number of access lines served by Iowa ILECs is slightly more than 1,100, and more than 100 of ITA's member companies serve fewer than 2,000 access lines. These companies receive high-cost universal service funding which is critical to their continued provision of high quality telecommunications services at reasonable rates in rural, high-cost service areas.

² *In the Matter of High-Cost Universal Service Support*, WC Docket No. 05-337; *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, 23 FCC Rcd 1495 (released January 29, 2008) (NPRM).

served by rural ILECs, the perceived advantages of reverse auctions are far outweighed by the disadvantages. Implementation of reverse auctions in rural, high cost service areas where rural ILECs have already invested in ubiquitous wireline networks capable of delivering universal service will result in significant stranded costs and discourage future investment in technologies and infrastructure critical to the goals and principles of universal service.

Instead, the Commission should focus its efforts on the real problem facing the high cost fund — the explosive growth of CETC payments — by eliminating the identical support rule and establishing meaningful and appropriate methodologies for calculating high-cost support for competitive ETCs.

II. COMMENTS

The Commission has tentatively concluded that reverse auctions will provide ETCs with necessary incentives to provide supported services at the "minimum possible cost" and may provide a "fair and efficient" means of eliminating the subsidization of multiple ETCs in a given region or area.³ The use of reverse auctions may or may not result in the realization of these perceived advantages in the short term and under certain circumstances. In any event, the use of a reverse auction mechanism to determine high-cost universal service support in rural ILEC service areas with preexisting infrastructure is likely to have disastrous long term consequences for rural ILECs and the customers and communities which they serve. While ITA supports the efforts of the Commission to reform the high-cost universal service program in a meaningful and sustainable manner, ITA is unequivocally opposed to the use of reverse auctions as a funding mechanism for support to rural ILECs.

³ *Id.* at para. 11.

The fundamental purposes of universal service are to ensure that consumers in rural, insular and high-cost areas have access to telecommunications and information services that are reasonably comparable to those provided in urban areas, and at reasonably comparable rates.⁴ Quality services should be available at just, reasonable and affordable rates, and access to advanced telecommunications and information services should be provided to all regions of the nation.⁵ The primary disadvantage of reverse auctions is that they represent a significant and untested departure from the existing embedded cost-based support mechanism for rural ILECs — a support mechanism with a proven track record of accomplishing the goals of universal service.

Consistent with the fundamental purposes of universal service support, the embedded cost-based mechanism for rural ILECs provides specific, predictable and sufficient support vital to the provision of high quality services at just, reasonable and affordable rates in rural high-cost service areas. On the contrary, reverse auction mechanisms will only serve to increase the overall level of risk and uncertainty inherent in serving consumers in high-cost areas and will threaten the viability of and capacity for future investment in essential network infrastructure.

Rural ILECs are committed to the universal availability of high quality voice and broadband services in rural, high-cost areas. As demonstrated by the network investments made by these rural carriers, reverse auctions are unnecessary to ensure that universal service support is invested efficiently and for the purposes for which it is intended. The existing embedded cost-based support mechanism does little to influence the mounting competitive and regulatory pressures which require rural ILECs to invest prudently and operate as efficiently as

⁴ 47 U.S.C. § 254(b)(1)-(3).

⁵ *Id.*

possible in order to compete effectively while maintaining high quality networks capable of providing universal service throughout their rural, high-cost service areas. Under the embedded cost mechanism, rural ILECs have made and continue to make significant investments in the buildout of ubiquitous wireline networks capable of delivering supported services to rural, high-cost areas. In most cases, construction and operation of these networks would not be justified or sustainable without high-cost universal service support. Any meaningful prospects for significant continuing investment in the technologies and infrastructure necessary to meet the future communications needs of rural, high-cost areas will likewise depend on a support mechanism which includes a direct link between the cost of the necessary investment and the amount of support available to rural ILECs.

Any change in support mechanisms would result in significant stranded costs in rural, high-cost service areas where rural ILECs have invested in and deployed ubiquitous networks based on assumptions tied to sufficient recovery of embedded costs. By placing the focus almost entirely on "minimum possible cost," reverse auctions will be devoid of any link between the cost of investment and the amount of support available to rural ILECs. In addition to this ill-advised disconnection of universal service support from the costs associated with necessary and prudent network investment, reverse auctions fail to account for significant differences between technologies and the costs associated with using those technologies to provide high quality affordable services in rural, high cost areas. Rather than encouraging universal service, reverse auctions will serve as a barrier to continued investment by rural ILECs in multi-functional networks and advanced technologies capable of meeting the growing demand for advanced communications services among consumers in rural, high-cost service areas. The uncertainty and risk inherent in an auction system will likewise impede access to reasonably priced capital,

further limiting the capacity of rural ILECs to invest in network upgrades and new technologies. In many instances, rural ILECs may be left with no alternative but to exit all or a portion of a high-cost service area. Such results would be directly contrary to the preservation and advancement of universal service in rural, high-cost communities.

The use of reverse auctions to award universal service support on the basis of "minimum possible cost" will also directly impact the quality and comparability of communications services available to consumers in rural, high cost areas. Rural ILECs are inextricably committed to the provision of universal basic and advanced services to the consumers and communities they serve. In part because of this commitment, rural ILECs lack the economies of scale and capital reserves available to many competitive wireless ETCs. In a highly competitive auction, the winning bid is likely to result in support well below an amount sufficient to support the maintenance and upgrade of rural ILEC networks as necessary to provide high quality advanced services in high-cost areas over time. In the same auction or in other scenarios, the winning bid may result in support in excess of an amount sufficient for a wireless competitive ETC to make a minimum investment in a rural market for the provision of more basic service and with less dependable commitment to the highest cost portions of the service area. If reverse auctions will identify winners and losers without regard for the needs and expectations of consumers throughout rural service areas, they are likely to result in decreased availability and quality of service and increased customer confusion and dissatisfaction.

ITA urges the Commission to be mindful of the potential negative ramifications of the implementation of reverse auctions. Consider the situation of a rural ETC study area where a new market entrant is the competitive bid winner (and thus is the recipient of high-cost

funding), yet proves unable to sustain a long-term business plan. The customers in that area would likely experience a significant degradation of service as the competitive bid winner cuts costs and investment in order to survive. As the competitive bid winner spirals downward, the incumbent provider is less able to step back in to provide state-of-the-art service because it was forced to reduce its network investments as a result of losing out on high-cost USF funding. The net result is that all of the rural customers could suffer, while the goals of universal service take a step backward.

Given the disadvantages identified herein and the myriad of other issues and concerns that must be addressed in connection with any transition from a proven, effective support mechanism based on embedded costs to an untested, uncertain support mechanism based on "minimum possible cost," the Commission should decline to use reverse auctions to determine the amount of high-cost universal service support available to rural ILECs serving rural, insular and high-cost areas.

III. CONCLUSION

We believe the Commission should focus its efforts on more meaningful and sustainable universal service reforms, such as the elimination of the identical support rule and the establishment of meaningful embedded cost-based methodologies for calculating high-cost support for competitive ETCs.

Today, rural ILECs effectively and efficiently serve as true providers of high-quality, modern communications services at affordable rates, even for consumers in the highest cost rural service areas. Having made the investments necessary to deploy networks capable of providing true universal service and to meet their obligations as true carriers of last resort (COLR), rural ILECs deliver essential services to rural consumers in those high-cost areas where

competition and market forces alone would not justify or support these investments. Additionally, rural ILECs provide critical infrastructure for other platforms and services crucial to the evolving communications needs of rural America. These accomplishments were made possible as the result of a high-cost support mechanism that provides specific, predictable and sufficient support. In the course of reforming the high-cost support program, the Commission should not, at least with respect to rural ILECs, abandon this stable, sustainable model in favor of an uncertain and erratic funding mechanism based on reverse auctions.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I, John C. Pietila, hereby certify that copies of the foregoing Comments of the Iowa Telecommunications Association in WC Docket No. 05-337 and CC Docket No. 96-45 were sent by first class United States mail, postage prepaid, or via electronic mail, on April 17, 2008, to those listed below.

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² *In the Matter of High-Cost Universal Service Support*, WC Docket No. 05-337; *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, 23 FCC Rcd 1467 (released January 29, 2008).

proposals and tentative conclusions regarding the basis of support, determination of costs and calculation of support for competitive ETCs.

II. COMMENTS

ITA supports the Commission's efforts to effect meaningful, sustainable reforms for the preservation and advancement of universal service in rural and other high-cost areas. Specific, predictable and sufficient federal universal service support mechanisms are essential to guarantee that rural consumers will continue to have access to modern telecommunications and information services which are reasonably comparable in quality and price to similar services in urban areas. As the Commission has recognized, rapid growth in high-cost support for wireless competitive eligible telecommunications carriers (ETCs) has placed extraordinary pressure on the high-cost universal service fund. In order to control this explosive growth and ensure the long-term sustainability of that fund, the Commission must reform the methods by which it distributes high-cost support to wireless competitive ETCs.

A. Identical Support Rule

ITA supports the elimination of the identical support rule. Rural ILECs receive high-cost support on the basis of real network investment, ensuring that (i) high-cost support is being used for the intended purposes of providing supported services throughout high-cost service areas and (ii) the amount of support is not more than "sufficient" to achieve these purposes. The identical support rule bears no relationship to the actual commitment (measured by financial investment or otherwise) that competitive ETCs have made to the provision of universal service in rural and other high-cost service areas. Instead, the identical support rule has created an environment that permits wireless competitive ETCs (many of which are national or regional wireless carriers) to receive substantial amounts of high-cost support based on the

embedded costs of rural ILECs. Identical support without cost justification unfairly favors wireless technologies by permitting wireless carriers to receive potentially excessive and unjustified support unrelated to actual investment for the benefit of consumers in rural, high-cost areas. In the interests of competitive neutrality and to preserve the integrity of the high-cost fund, wireless competitive ETCs should receive high-cost support based on their own costs and in a manner that ensures that such support is used to fund real investment in rural and other high-cost service areas.

B. Determination of Costs

As a condition to receiving high-cost universal service support, competitive ETCs should be required to file sufficient cost data showing their own per-line costs of providing supported services in high-cost service areas. ITA has not submitted its own detailed cost data proposal and reserves comment on the WiCAC Proposal or other proposals regarding cost reporting for competitive ETCs. ITA encourages the Commission to develop an "average schedule" approach or similar streamlined option for smaller competitive ETCs, which would afford smaller carriers the opportunity to avoid excessive costs and administrative burdens associated with developing an annual cost study. ITA believes that cost data is most appropriately submitted to the Commission in order to assure uniformity of application, and that cost data should not be submitted to the "relevant state commissions." ITA also agrees that such submission should be at least on an annual basis and agrees that competitive ETCs should have the option of updating cost data on a quarterly basis.

ITA opposes the inclusion of spectrum costs in carrier cost submissions because such costs represent investment in an intangible asset with an indefinite life rather than a direct investment in facilities and infrastructure that can be used to deliver supported service in high-

cost areas and which have a limited useful life. ITA agrees with the Commission's tentative conclusion that wireless handsets are the equivalent of customer premises equipment in a wireline network and therefore should not be treated as an allowed expense. ITA reserves comment on the Commission's other proposals regarding cost reporting requirements and any additional requirements that may be advisable or necessary to fairly reflect fundamental differences between wireline and wireless networks and services.

C. Calculation of Support

In order to ensure true accountability and encourage real investment in high-cost service areas, competitive ETCs should receive high-cost support based on their own costs and by applying benchmarks that objectively demonstrate above-average costs for any supported investments. ITA reserves comment on the methodologies and thresholds appropriate for determining high-cost support for wireless competitive ETCs. ITA agrees with the Commission's observation that wireless networks are fundamentally different from wireline networks, potentially resulting in very different costs. Any methodology for reviewing and determining wireless high-cost support (including the option of a separate wireless high-cost support mechanism) must be developed in a manner consistent with the goals of competitive neutrality and stabilization of the high-cost fund.

ITA agrees with the Commission's tentative conclusion that wireless competitive ETCs should no longer receive access replacement support (ICLS and IAS) or local switching support (LSS) because such support is based on market and regulatory conditions and assumptions that are inapplicable or inaccurate in the context of wireless services. The past "recovery" of access replacement and local switching support by wireless competitive ETCs is an example of the flawed underpinnings of the identical support rule. ITA agrees that competitive ETCs should be

permitted to receive high-cost support only for their local-loop equivalent costs and only to the extent such costs can be shown to be high-cost.

D. Ceiling on Competitive ETC Support

ITA reserves comment on the Commission's inquiries regarding a ceiling on the amount of per-line high-cost support that a competitive ETC may receive. Generally, ITA believes that any methodology for determining high-cost support for competitive ETCs should be developed and implemented in a manner that rewards efficient investment in rural and other high-cost service areas and which deters artificial and unsustainable market entry or the inflation of reported costs.

E. Other Issues

ITA reserves comment on the use of universal service support by wireless competitive ETCs and whether more stringent or additional certification requirements are necessary to ensure that high-cost universal service funds are used for their intended purposes. In developing a methodology for reviewing and determining wireless high-cost support, the Commission should make every effort to ensure that (i) high-cost support is being used for the intended purposes of providing supported services throughout high-cost service areas and (ii) the amount of support is not more than "sufficient" to achieve these purposes.

III. CONCLUSION

In order to ensure the long-term sustainability of the high-cost universal fund, the Commission must fundamentally reform the methods by which it distributes support to wireless competitive ETCs. Such reforms should be carried out consistent with the goals of competitive neutrality and stabilization of the high-cost fund. The Commission should immediately eliminate the identical support rule and should act now to develop cost reporting and support calculation

methodologies that account for the fundamental differences between wireline and wireless networks and services.

Respectfully submitted,

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